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ANNUAL
REPORT
1972

FINLAYSON ENTERPRISES LTD.

FINLAYSON ENTERPRISES LTD.

DIRECTORS

G. A. BODDY

F. B. BROOKS-HILL

R. W. FINLAYSON

R. H. HOPPE

D. A. McINTOSH, Q.C.

H. SUTHERLAND

R. G. WILSON

OFFICERS

<i>President</i>	- - - - -	R. W. FINLAYSON
<i>Vice-President</i>	- - - - -	G. A. BODDY
<i>Vice-President</i>	- - - - -	R. G. WILSON
<i>Secretary</i>	- - - - -	H. SUTHERLAND
<i>Treasurer</i>	- - - - -	J. C. LONGWORTH

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY

TORONTO, ONTARIO

WINNIPEG, MANITOBA

BANKERS

THE BANK OF NOVA SCOTIA

TORONTO, ONTARIO

AR43

FINLAYSON ENTERPRISES
LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1972

FINLAYSON ENTERPRISES LTD.

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss

(Unaudited)

	Six Months Ended	
	June 30, 1972	June 30, 1971
Sales	\$2,778,844	\$1,382,639
Profit on Operations	\$ 174,983	\$ 58,473
Provision for Income Taxes	70,100	—
Net Profit	\$ 104,883	\$ 58,473
Earnings per Common Share (1971 figures reflect the December 1971 Share re-organization)	96.8 cents	36.1 cents

Consolidated Statement of Source and Application of Funds

(Unaudited)

	Six Months Ended	
	June 30, 1972	June 30, 1971
Source of Funds		
Consolidated Net Profit	\$ 104,883	\$ 58,473
Add: Depreciation, a non-cash outlay	18,421	9,955
Funds provided from operations	\$ 123,304	\$ 68,428
Application of Funds		
Net addition to Fixed Assets	\$ 6,464	\$ 16,169
Dividends: Class "A" Shares	—	7,260
Class "B" Shares	—	18,505
Class "C" Shares	—	3,701
Preferred Shares	21,784	—
Common Shares	23,345	—
Redemption of 77,817 Preferred Shares	77,817	—
Paid re Life Insurance, a non-current asset	1,902	—
Non-current portion of Mortgage Receivable re sale of assets	4,000	—
Total Application of Funds	\$ 135,312	\$ 45,635
Increase (Decrease) in Working Capital	\$ (12,008)	\$ 22,793
Working Capital at Beginning of Period	1,860,751	2,279,834
Working Capital at End of Period	\$1,848,743	\$2,302,627

With the disposal of the Grover subsidiary, the remaining three operating units are Beauty Industries, W. Lloyd Wood and Griffiths Kerr. These three units showed satisfactory progress and the forecast for the last half of the year indicates buoyant sales and good profits.

Your officers are continuously examining the possibility of adding new lines to your Company's operations and possible acquisitions of new companies. Information will be given to the shareholders as and if these developments are finalized.

August 3, 1972 R. W. FINLAYSON,
President

cap report

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

In 1972 sales and profit on operations were the highest in the Company's history. In spite of greatly increased taxes the net profit after all charges advanced from \$196,249 in 1971 to \$215,517 in 1972.

The Company's largest subsidiary, Beauty Industries Limited, had record sales and has proven to be a successful operation. Several new products have been added which should create greater volume. Action has been taken to increase efficiency and deal with higher costs.

The remaining two units, Wood and Griffiths Kerr had all-time peak sales and profits. While the loss early in 1973 of a major Wood agency, which started on its own, will be partially offset by the acquisition of two new agencies, it is not anticipated that consolidated 1973 profits will reach the level attained in 1972.

Our search for acquisitions has been continuous and it is hoped that one or more of the negotiations which are now under way can be concluded in the current year.

R. W. FINLAYSON
President

March 28, 1973

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

	1972	1971
CURRENT		
Cash.....	\$ 27,689	\$ 100,887
Short term deposit receipts.....	50,000	—
Investment in income debenture, at cost.....	1,000,000	1,000,000
Marketable securities, at cost (market value \$9,850).....	13,257	13,257
Accounts receivable.....	1,146,279	835,021
Merchandise inventories, at lower of cost and net realizable value.....	993,547	1,024,694
Mortgage receivable—8%.....	10,927	—
Prepaid expenses.....	30,847	35,791
TOTAL CURRENT ASSETS.....	3,272,546	3,009,650
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost.....	453,228	509,329
Less accumulated depreciation.....	334,773	376,711
TOTAL FIXED ASSETS.....	118,455	132,618
OTHER		
Cash value of life insurance policies.....	49,365	45,822
Approved on behalf of the Board:		
R. W. FINLAYSON, <i>Director</i>		
G. A. BODDY, <i>Director</i>		
	<u>\$3,440,366</u>	<u>\$3,188,090</u>

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the Consolidated Balance Sheet of Finlayson Enterprises Ltd. and Subsidiary Companies as at 31 December 1972 and the Consolidated Statements of Earned Surplus, Profit and Loss and Source and Application of Funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Companies as at 31 December 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 10 March 1973

DUNWOODY & COMPANY
Chartered Accountants

ENTERPRISES LTD.

COMPANIES

as at 31 December 1972

LIABILITIES

	1972	1971
CURRENT		
Bank indebtedness	\$ 410,682	\$ 367,000
Accounts payable and accrued charges	919,352	633,845
Income and withholding taxes	84,401	88,054
Current portion of long term debt	60,000	60,000
TOTAL CURRENT LIABILITIES	1,474,435	1,148,899
LONG TERM DEBT, note 2	180,000	240,000
	1,654,435	1,388,899
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 3		
Authorized		
2,384,392 6% cumulative preferred shares of par value \$1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value		
Issued and fully paid		
855,987 Preferred shares	855,987	1,011,621
77,817 Common shares	281,671	281,671
	1,137,658	1,293,292
EARNED SURPLUS	648,273	505,899
TOTAL SHAREHOLDERS' EQUITY	1,785,931	1,799,191
	\$3,440,366	\$3,188,090

Consolidated Statement of Earned Surplus for the Year Ended 31 December 1972

	1972	1971
BALANCE, BEGINNING OF YEAR	\$ 505,899	\$1,481,792
Transferred from restricted surplus	—	560,412
Net profit for year	215,517	196,249
	721,416	2,238,453
Cash dividends paid during the year		
Preferred shares	49,798	—
Common shares	23,345	—
Class "A", "B" and "C" shares	—	36,726
Stock dividend on common shares	—	1,011,621
Transferred on redemption of Class "C" shares under Section 62 of the Canada Corporations Act...	—	370,104
15% tax on election under Section 105(c) of the Income Tax Act	—	7,500
Excess of cost of shares of subsidiary over book value, patents and formulae—written off	—	306,603
	73,143	1,732,554
BALANCE, END OF YEAR	\$ 648,273	\$ 505,899

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss for the Year Ended 31 December 1972

	1972	1971
SALES (net), note 4	\$5,899,264	\$3,679,298
Profit on operations for the year, before accounting for the undernoted items	569,824	342,412
Add: Income from investments	51,472	104,998
	621,296	447,410
Less: Direct remuneration paid or payable to directors and senior officers as defined in The Securities Act (Manitoba)	214,843	189,897
Interest on indebtedness not initially maturing within one year	19,343	8,285
Provision for depreciation and amortization of fixed assets	38,227	24,814
	272,413	222,996
PROFIT FOR YEAR, before provision for income taxes	348,883	224,414
Provision for income taxes	133,366	28,165
NET PROFIT FOR YEAR, notes 6 and 7	\$ 215,517	\$ 196,249

Consolidated Statement of Source and Application of Funds
for the Year Ended 31 December 1972

SOURCE OF FUNDS

Operations

Net profit for year	\$ 215,517	\$ 196,249
Depreciation and amortization, items not requiring an outlay of funds	38,227	24,814
	253,744	221,063
Proceeds on disposal of fixed assets	29,354	10,972
Unsecured debenture, net	—	240,000
TOTAL FUNDS OBTAINED	283,098	472,035

APPLICATION OF FUNDS

Acquisition of fixed assets	53,418	124,363
Increase in cash value of life insurance policies	3,543	—
Reclassification of cash value of life insurance policies	—	45,822
Acquisition of intangibles on purchase of shares of subsidiary	—	306,603
Repayment on unsecured debenture	60,000	—
Redemption of preferred shares	155,634	—
Redemption of Class "C" shares	—	370,104
Dividends paid during year—preferred shares	49,798	—
— common shares	23,345	—
— Class "A", "B" and "C" shares	—	36,726
15% tax on election under Section 105(c) of the Income Tax Act	—	7,500
TOTAL FUNDS APPLIED	345,738	891,118
DECREASE IN CONSOLIDATED WORKING CAPITAL	62,640	419,083
Consolidated working capital, beginning of year	1,860,751	2,279,834
CONSOLIDATED WORKING CAPITAL, END OF YEAR	\$1,798,111	\$1,860,751

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1972

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.

2. LONG TERM DEBT

	1972	1971
7% unsecured debenture.....	\$240,000	\$300,000
Current portion.....	60,000	60,000
	<u>\$180,000</u>	<u>\$240,000</u>

The 7% unsecured debenture is repayable in equal amounts on the 8th of August in each of the years 1973 to 1976 inclusive. The debenture is held by a Director of the Company.

3. SHARE CAPITAL

During the year 155,634 preferred shares were redeemed for a cash consideration of \$155,634.

4. CLASSES OF BUSINESS

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1972	1971
Manufacturers' Agents.....	\$4,004,175	\$2,621,328
Manufacture of Concrete Products.....	22,070	280,283
Manufacture of Infants' Wear.....	1,873,019	777,687
	<u>\$5,899,264</u>	<u>\$3,679,298</u>

5. DIRECTORS' REMUNERATION

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$2,000 (1971—\$2,000); the aggregate remuneration of the five Officers of the Company as Officers amounted to \$124,625 (1971—four—\$74,917) and four of the Officers of the Company are also Directors.

6. NET PROFIT FOR YEAR

The net profit for the year has been increased by approximately \$22,300 through the elimination of income taxes as a result of both the application of losses carried forward and through timing differences in the recording of depreciation for tax purposes and financial reporting in certain of the group companies. In addition, certain of the Companies' investment income is not subject to taxation. Losses of approximately \$17,000 are available in certain of the group companies for application against future years' profits.

7. EARNINGS PER COMMON SHARE

Earnings per common share are \$2.04 in 1972 and, calculated using the weighted daily average number of shares outstanding after giving effect to the reclassification of Class "A" and Class "B" shares into common shares on 15 December 1971 and the stock dividend in the form of preferred shares on 22 December 1971, were \$2.82 in 1971. Losses carried forward and depreciation timing differences as referred to in note 6 had the effect of increasing earnings per common share by \$.28 in 1972 and \$.90 in 1971.

Earnings per common share for 1971 calculated as though the reclassification of the Class "A" and Class "B" shares into common shares and the stock dividend in the form of preferred shares had taken place on 1 January 1971 would be \$1.74. On this basis losses carried forward and depreciation timing differences as referred to in note 6 had the effect of increasing earnings per common share by \$.72 in 1971.

8. FOREIGN EXCHANGE

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1972.

9. CONTINGENT LIABILITY

Certain of the group companies have received and are appealing income tax reassessments totalling approximately \$248,000 for the years 1966 to 1968. No provision has been made in the accounts for these reassessments as it is the opinion of counsel that the Company should probably be successful in having the reassessments set aside.

10. UNFUNDED PENSION BENEFITS

The Company's liability under its employee pension plan for unfunded past service and experience rating deficiency amounted to approximately \$50,000 which is required to be funded in equal annual instalments of approximately \$5,600 over the next four years and \$3,900 over the subsequent seven years.

